

VZCZCXRO9784
RR RUEHGH
DE RUEHIN #0124/01 0170938
ZNY CCCCC ZZH
R 170938Z JAN 07
FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 3760
INFO RUEHBK/AMEMBASSY BANGKOK 3546
RUEHBJ/AMEMBASSY BEIJING 6215
RUEHKL/AMEMBASSY KUALA LUMPUR 3648
RUEHML/AMEMBASSY MANILA 9911
RUEHGP/AMEMBASSY SINGAPORE 6768
RUEHKO/AMEMBASSY TOKYO 8381
RUEHGZ/AMCONSUL GUANGZHOU 9893
RUEHHK/AMCONSUL HONG KONG 7445
RUEHGH/AMCONSUL SHANGHAI 0714
RUEHC/DEPT OF AGRICULTURE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC

C O N F I D E N T I A L SECTION 01 OF 04 TAIPEI 000124

SIPDIS

SIPDIS

STATE PASS USTR
STATE FOR EAP/TC,
USTR FOR STRATFORD AND ALTBACH
TREASURY FOR OASIA/LMOGHTADER
USDA FAS FOR OCRA/SMITH

E.O. 12958: DECL: 01/12/2010

TAGS: [ETRD](#) [ECON](#) [PREL](#) [TW](#)

SUBJECT: DAUSTR STRATFORD DISCUSSES TIFA & FTA WITH TAIWAN

REF: A. 2006 TAIPEI 4164

[1](#)B. 2006 TAIPEI 3288

Classified By: AIT ECON CHIEF DANIEL K. MOORE FOR REASONS 1.5 (b), (c)

[1](#)1. (C) Summary: Taiwan reiterated its strong desire to enter into an FTA with the U.S. Senior economic officials indicated they are prepared to work diligently on the Trade and Investment Framework Agreement (TIFA) agenda, including the bilateral investment and tax agreements, the Consultative Committee on Agriculture and the Textiles MOU. Taiwan is not yet prepared to move forward on the WTO Government Procurement Agreement (GPA) and could not say when they might be prepared. Assistant U.S. Trade Representative Stratford said he would consult on this issue in Washington with a view towards requesting talks on a bilateral GPA. End Summary.

[1](#)2. (C) Assistant U.S. Trade Representative for China, Mongolia, Hong Kong and Taiwan Timothy Stratford visited Taipei December 18-19 to follow-up on the Trade and Investment Framework Agreement Council meeting held in May [1](#)2006. They discussed bilateral trade relations with Vice Premier Tsai Ing-wen, Minister of Economic Affairs (MOEA) Steve Chen (Ruey-long) and National Security Council (NSC) Senior Advisor Connie Yang on December 19 in Taipei, following additional meetings (reported septel) on December [1](#)18. Stratford was accompanied by AIT Acting Director Robert Wang for the meetings with Tsai and Chen; Deputy Assistant USTR Eric Altbach accompanied Stratford on all visits along with AIT/T Econ Chief and AIT/T Econ Officer. VP Tsai had her chief of staff, Chang Hsieng-hwei (Zhang Xiang-hui), accompany her; Minister Chen had numerous officials from various parts of MOEA participate in a one hour meeting prior to lunch, but only Deputy Minister Hsieh Fa-dah and Board of Foreign Trade Director General Franco Huang (Chih-peng) joined him for the lunch he hosted for Stratford; Connie Yang (Guang-hwa) was accompanied by Connie Huang (Yu-ching).

[1](#)3. (C) By the time Stratford met with VP Tsai at the end of the two day visit, it was apparent Tsai had been intimately involved in preparations for the visit and ensured Taiwan

officials all spoke with a consistent voice. The delegation found the Taiwan side well prepared and fully cognizant of U.S. interests and concerns on the various issues. Our interlocutors clearly described what they were doing to address U.S. concerns and those areas where they would like assistance from the U.S.

Free Trade Agreement

¶4. (C) All three officials reiterated Taiwan's strong interest in pursuing an FTA with the U.S., putting forth both political and economic arguments. In the past, Taiwan officials have generally emphasized political arguments (an FTA will provide domestic political support for economic opening to the PRC while also encouraging other countries in the region to sign FTAs with Taiwan to counter China's efforts to sign an FTA on the ASEAN Plus 3 model) more than economic ones, so this set of discussions was somewhat refreshing. Chen spent the most time on the FTA, using points echoed later by Tsai. He said Taiwan stands to be disadvantaged by the U.S.-Korean FTA, because Taiwan and Korea are at similar stages of development and their hi-tech firms compete directly in manufacturing identical products: flat panel displays and semiconductor chips. He cited as evidence that Korea's share of U.S. imports is rising while Taiwan's share is decreasing. (Note: While he did not cite particular data, we found the argument unconvincing because so many Taiwan firms utilize China as a manufacturing base for shipments to the U.S. A closer analysis might well show that the share of U.S. imports of goods made by Taiwan firms is rising. End Note.)

¶5. (C) Stratford observed that U.S. firms' do not view a

TAIPEI 00000124 002 OF 004

U.S.-Taiwan FTA as a high priority. Rather, they are focused on the linkages between Taiwan and China and the need for liberalization of restrictions Taiwan imposes on regional integration. Chen suggested Taiwan is liberalizing its restrictions by saying he had approved three major investments the day before, two semiconductor fabs of 8-inch wafers and an acquisition by Taiwan's ASE corporation of a semiconductor packaging and testing facility in Shanghai. (See Ref A for a report on the approvals, two of which had been pending at MOEA for two years without any action.)

China's Stance on Taiwan FTAs

¶6. (C) Chen urged the U.S. to be prepared to take quick action on an FTA largely because of expected opposition by China. Seemingly echoing remarks on September 21 Vice Premier Tsai made to AIT Director Young (Ref B), Chen said the U.S. and Taiwan should establish working groups within the Trade and Investment Framework Agreement (TIFA) process to work towards an FTA agreement. He said both Taiwan and the U.S. recognize China will oppose an agreement, but he said in the end China will be pragmatic and, comparing it to China's acceptance of Taiwan being a WTO member, will accept such an FTA as a fact of life. Chen said Taiwan, with its large stock of investment in the Mainland, understands China better than any other country and is confident the U.S. should not be concerned about Chinese threats and posturing. He said the U.S. is the only country in the world that can withstand any possible pressure from China.

¶7. (C) Stratford said the U.S. could not contemplate launching any new FTAs in the near term because Trade Promotion Authority (TPA) expires in June and the FTA notification requirements alone would take up all remaining time prior to expiration. He said USTR intends to push for renewal of TPA, though cautioned it will be an uphill battle with the new Congress, which may well impose new requirements for any FTAs. Over the longer term, if Taiwan wants to make the best cause for consideration as an FTA partner, Stratford

said it will be important to take into account possible Chinese reactions, including the possibility of China pressuring both U.S. and Taiwan firms. Recalling that Deputy USTR Bhatia had previously asked Chen for studies on the economic impact on Taiwan of the U.S.-Korean FTA, Stratford also asked for Chen's thoughts on strategies to ameliorate China's concern over a U.S.-Taiwan FTA and even demonstrate to China the advantages such an agreement might bring to China. Chen said his ministry is still preparing the report for Bhatia and that he would look into the question of ways to satisfy China's concerns. Stratford also asked both Tsai and Yang for their thoughts on ways to blunt China's potential objections to a U.S.-Taiwan FTA. While they agreed it was important to prepare a China strategy, neither had any specific suggestions at this time.

Government Procurement Agreement

18. (C) Stratford carefully explained why the U.S. believes membership in the WTO GPA would be significant to Taiwan and the downside risks minimal. He said membership would give Taiwan international visibility in another high profile international forum, open up new markets for Taiwan firms and that China's planned application to join the GPA in December 2007 could complicate efforts to get Taiwan in at a later time. Tsai, Chen and Yang said they fully understood these arguments, but explained they simply could not move forward at this time. Chen noted Taiwan firms have displayed little interest in access to foreign government markets and noted they don't express much interest in the FTA with the U.S. either or respond to his efforts to encourage investment in other countries, like Central America or Africa, instead of China. Stratford said he would take this position back to Washington for further consultations, but expected the U.S.

TAIPEI 00000124 003 OF 004

would move forward with its request to initiate talks on a bilateral GPA as soon as possible.

19. (C) Tsai, Chen and Yang were in complete agreement that political considerations are driving Taiwan's position on the Government Procurement Agreement (GPA). All three were firm that they could not even suggest a timeline for a decision on whether or not Taiwan would find any language acceptable in footnotes for WTO GPA accession. Yang was the most expansive in saying she personally was in favor of moving ahead with the WTO GPA on economic grounds, but that her boss (NSC Secretary General Chiou I-jen) and others in Taiwan's

SIPDIS

interagency process had all joined to convince her that Taiwan independence supporters would take any agreement with the footnotes for Taiwan's WTO GPA accession and create a political firestorm for President Chen's Administration. Yang also suggested that Taiwan found the footnote language in the stage I decision to be completely unacceptable and therefore was having a very difficult time contemplating any further language that might possibly be used to refer to the Stage I decision.

110. (C) Frederic LaPlanche, EU representative in Taipei called AIT/T December 21 requesting a readout of the GPA discussions. We told him Taiwan had been absolutely firm in not being willing to move forward on WTO GPA at this point and not able to offer any kind of a timeline on the subject. He asked if the U.S. would then pursue a bilateral GPA agreement and we told him the USTR delegation had told Taiwan there would be further consultations on this in Washington. LaPlanche said he would consult with Brussels and would be recommending that the EU continue to try for a WTO GPA by having the stage II decision not have any footnotes at all and that there should not be discussions with China in advance because it would not want to compromise its existing position. He believes China would, however, accept, after some protest, such a decision by the GPA Committee.

TIFA AGREEMENTS

¶11. (C) Stratford described the state of play on the outstanding TIFA agreements for Tsai and Chen. On the Bilateral Tax Agreement, he noted there has been a great deal of discussion in Washington on the modalities required to implement such an agreement with the debate being over the need for unicameral or bicameral approval in Congress. He said Treasury is following up this week or next with further consultations with the Senate and the House and, while the issue remains extremely challenging, he is hopeful of some progress. On the Bilateral Investment Agreement, he said the U.S. side is waiting for comments from Taiwan on the draft texts presented earlier and believes implementation of the BIA will be less complex than that for the BTA. He noted there appears to be agreement in principle on the text for the Consultative Committee on Agriculture (CCA), though the Council of Agriculture is still waiting for confirmation from the Department of Health that it will participate in the forum to cover food safety issues. Finally, Stratford said we are finalizing a proposed text for the MOU on countering textile transshipments. Tsai and Chen expressed appreciation for the progress on these agreements, with Tsai hinting she was already aware of how close the CCA is to completion. Both of them commented that the tax agreement should be a benefit to firms from both sides. Chen assured Stratford of Taiwan's interest in controlling textile transshipments.

TIFA Meeting

¶12. (U) Tsai suggested she would prefer April for the next TIFA meeting. Stratford stated that with the timing of many upcoming events not yet finalized, it is not yet possible for us to propose a TIFA date. Stratford did note that USTR's schedule is extremely busy for the first six months of the

TAIPEI 00000124 004 OF 004

year and that June would likely be the earliest possible timeframe.

¶13. (U) This message cleared by USTR.
YOUNG